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State of Texas
1987 Annual Financial Report

Fiscal Year Ended August 31, 1987

Bob Bullock
Texas Comptroller of Public Accounts

November 2, 1987

The Honorable William P. Clements
Governor of Texas
The State Capitol
Austin, Texas 78767

Dear Governor Clements:

State government's financial condition worsened during the year ended August 31, 1987. General revenue was insufficient to cover expenditures.

As a result, the state's General Revenue Fund finished the year with a $745 million deficit.

This report, as required by Tex. Rev. Civ. Stat. Ann. art. 4348, details the financial transactions of the state during the 1987 fiscal year which resulted in that balance.

Respectfully,

BOB BULLOCK
Comptroller of Public Accounts

TABLE OF CONTENTS

Letter of Transmittal	i
Tables and Figures	iii
Introduction	v
1987 in Review	1
The Year in Texas' Regions	5
Cash-Flow Problems Worsen In General Revenue Fund	7
Revenue and Expenditures	10
Revenue	10
Expenditures	17
Financial Condition	25
Statements of Cash Condition	25
Investment Accounts	25
Bonded Indebtedness	29
Securities Deposited in Trust	34
Foundation School Program	34
Notes to Financial Statements	36

TABLES AND FIGURES

Table 1: Change in Texas Nonfarm Employment by Industry 4
Table 2: Net Revenue by Source and Opening Cash Balances 10
Table 3: Percentage of Net Revenue by Source 11
Table 4: Annual Percentage Change in Net Revenue by Source 12
Table 5: Tax Rates and Taxable Bases for Major Texas State Taxes 13
Table 6: Texas Per Capita State Tax Collections 15
Table 7: Federal Fund Revenue by Program Category 16
Table 8: Federal Funds by Agency 17
Table 9: Net Expenditures by Function and Closing Cash Balances 18
Table 10: Percentage of Net Expenditures by Function 19
Table 11: Annual Percentage Change in Net Expenditures by Function 20
Table 12: Net Expenditures by Object 21
Table 13: Percentage of Net Expenditures by Object 22
Table 14: Annual Percentage Change in Net Expenditures by Object 22
Table 15: Flow of Funds to Local Governments 24
Table 16: Statement of Cash Condition 26
Table 17: Summary of Cash Condition by Fund Group 27
Table 18: Summary of Financial Condition 27
Table 19: Summary of Investments 28
Table 20: Asset Distribution of Major Investment Funds 28
Table 21: Statement of Principal Bonded Indebtedness 29
Table 22: Summary of Net Revenue Available for Debt Service 30
Table 23: General Obligation Bond Debt Service Requirements 30
Table 24: Permanent University Fund Bond Debt Service Requirements 33
Table 25: Higher Education Constitutional Bond Debt Service Requirements 33
Table 26: Securities Deposited in Trust 35
Table 27: Foundation School Program Budget Estimate and State Expenditures 35

Figure 1: Texas Nonfarm Employment 1
Figure 2: Taxable Value of Texas Oil Production 2
Figure 3: Texas and U.S. Monthly Unemployment Rate 3
Figure 4: Texas Personal Income 5
Figure 5: Percentage Change in Texas Nonfarm Employment by Region 6
Figure 6: Beginning Balance, General Revenue Fund 7
Figure 7: 1987 Net Monthly Balance, General Revenue Fund 8

Introduction

The ***1987 Annual Financial Report of the State of Texas*** reviews on a strict cash basis the state's financial condition and details the revenue and expenditure transactions for which the Comptroller of Public Accounts has accounting responsibility. The report is presented in two volumes.

This first volume examines recent events in the Texas economy and assesses the fiscal impact of those events on the state. It also summarizes the state's financial condition, revenue collections, expenditures and fund balances.

The second volume, ***Revenue and Expenditures of State Funds***, gives more detailed information about revenue, expenditures and the transactions of each state fund.

1987 IN REVIEW

A free-falling Texas economy finally hit bottom in fiscal 1987. So did the finances of state government.

The year began on September 1, 1986, with the state's economy reeling from the effects of declining oil prices and overbuilt real estate markets.

State government was reeling as well. Continuing a trend that started in July, September sales tax collections fell significantly below the previous year's level. That trend worsened through fall and into winter.

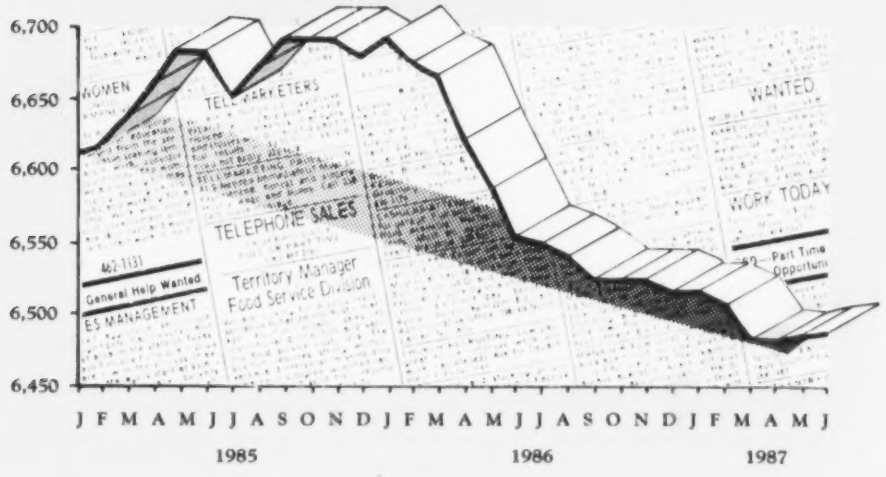
By summer 1987, however, the worst of the business decline was over and the foundation for an economic recovery was being laid.

As of July, for example, the state was still losing jobs, but the annual rate of job loss--1.3 percent--was down from the January peak of 2.7 percent.

The ailing unemployment rate mended a bit, too, moderating from a peak of 10.5 percent in June 1986 to 8.4 percent in August 1987.

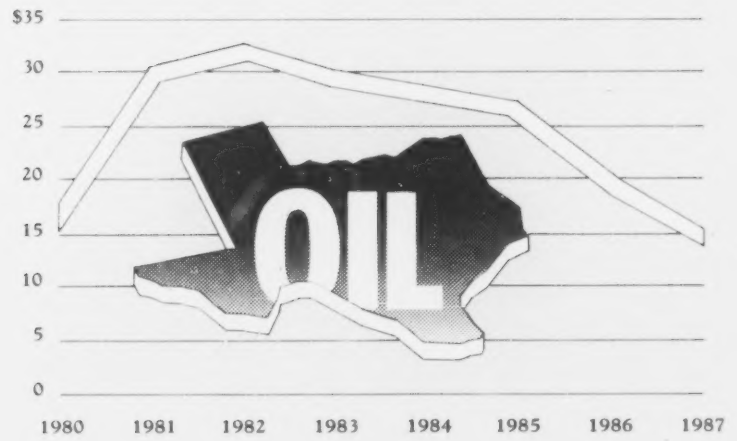
Unfortunately, those improvements were too late and too weak to bail out state government. Though it spent 3.9 percent less in 1987 than in 1986, the state still ended the year on August 31 with a $745 million cash deficit in its General Revenue Fund.

Figure 1
TEXAS NONFARM EMPLOYMENT
(Amounts in Thousands)



SOURCE: Texas Employment Commission.

Figure 2
TAXABLE VALUE OF TEXAS OIL PRODUCTION
(Per Barrel)



SOURCE: Bob Bullock, Comptroller of Public Accounts.

Higher Oil Prices, Fewer Oil Jobs

Oil prices rose during much of the year as OPEC showed some resolve to control oil production and supplies tightened. Yet the $15.49 per taxable barrel average price for 1987 remained below 1986's $19.35 average, and the industry lost employment compared to the year before.

In September 1986 the taxable price of Texas crude oil production went to $13.34 per barrel from about $12.14 per barrel in August. The rise continued unabated and taxable prices reached $19 per barrel at year end in August 1987.

The improvement in prices helped oil and gas drilling. As of late August, 313 drilling rigs were running in Texas--86 more than the previous year's 227.

Still, the count was less than half the 634 rigs operating in August 1985.

And the gains in oil prices and drilling activity came too late to prevent a fiscal 1987 decline in Texas oil and gas employment.

Employment in the industry in July 1987--although up 5,500 jobs from its low point in January--was 8,500 below July 1986. But the 1987 loss was better than 1986 when 59,000 people lost oil and gas jobs.

Manufacturing Down But Stirring

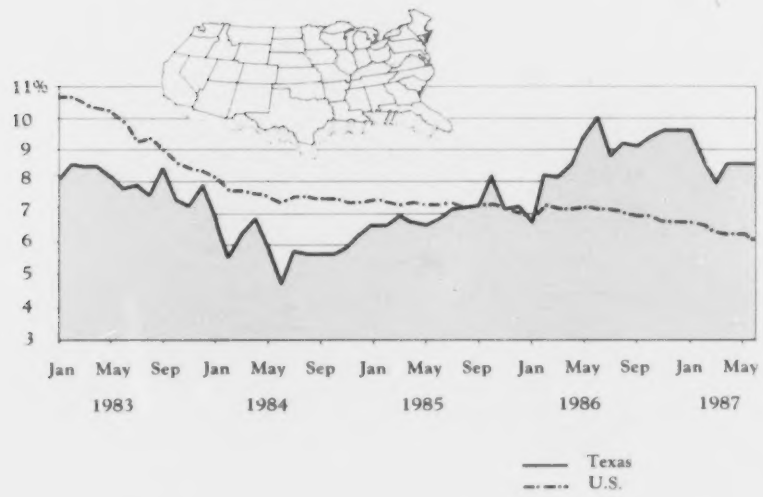
Like oil and gas, Texas manufacturing declined in 1987 but not as much as in 1986.

From July 1986 to July 1987 the state's manufacturers lost 1,200 jobs. That's far better than the 44,800 jobs lost the year before.

And although there was a net drop in manufacturing jobs during 1987, some product lines showed renewed signs of life as the dollar *declined* in value and oil prices *increased* in value. In fact, between its January low point and July, Texas manufacturing employment rose by 7,000.

Moderate gains in the national economy, small increases in oil prices and drilling activity, and more competitively priced U.S. goods (a result of the weakened dollar) should boost manufacturing job growth in 1988.

Figure 3
TEXAS AND U.S. MONTHLY UNEMPLOYMENT RATE, SEASONALLY ADJUSTED



SOURCE: U.S. Bureau of Labor Statistics.

Construction Overbuilt

Texas continued to have more than it needed of houses, offices and just about every other kind of structure in 1987.

A legacy of too much building in 1983 and 1984 and of two oil-price recessions in 1982-83 and 1986-87, vacancies were up and values were down in most Texas cities. Office vacancy rates, for example, ranged around 30 percent in Dallas, Houston, Austin and San Antonio.

As a result, Texas lost 46,600 construction jobs between July 1986 and July 1987, many more than the previous year's loss of 39,700.

The worst may be over for the state's construction industry, but it remains a major weak spot in the Texas economy.

Growth of Services Pauses

The services industry has been the main engine of growth in the Texas economy for several years. It employs 77 percent of all Texans and has created essentially all of the new jobs in the state since the 1982-83 recession.

But the downturn of oil prices and overall weakness of Texas' economy in 1986 caught up with services in 1987. In fact, 1987 stands out as the first year since current statistics began in 1970 that the number of service jobs did not increase.

Among service-providing businesses, wholesale and retail trade underwent significant consolidation. There were 27,100 fewer trade jobs in July 1987 than a year earlier. In addition, finance, insurance and real estate businesses, hurt by the construction downturn, lost 9,600 jobs. And during the same period, jobs in business, health and other miscellaneous services--once Texas' fastest growing industries--dropped by 4,300.

Only a few service sectors managed gains in 1987. Spurred by a pickup in business at airports, transportation and public utilities jobs across Texas rose by 3,900 between July 1986 and July 1987.

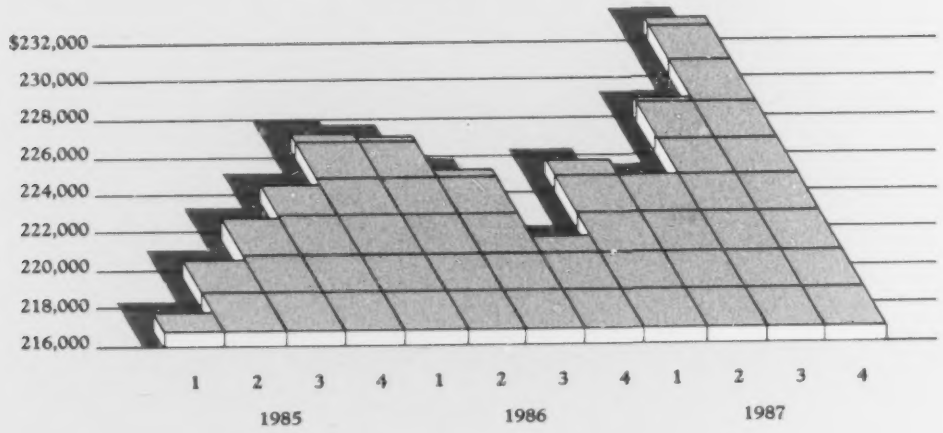
But the biggest job gains in Texas in 1987 were in government. Most of the 9,800 new government employees were hired by community colleges and universities.

Table 1
CHANGE IN TEXAS NONFARM EMPLOYMENT BY INDUSTRY
(Amounts in Thousands)

	July 1985-July 1986	July 1986-July 1987
Goods:		
Mining	-59.0	-8.5
Construction	-39.7	-46.6
Manufacturing	-44.8	-1.2
Total Goods	-143.5	-56.3
Services:		
Transportation and Public Utilities	-7.8	3.9
Finance, Insurance and Real Estate	2.0	-9.6
Wholesale and Retail Trade	-26.4	-27.1
Services	15.9	-4.3
Government	55.7	9.8
Total Services	39.4	-27.3
TOTAL EMPLOYMENT	-104.1	-83.6

SOURCE: Texas Employment Commission.

Figure 4
TEXAS PERSONAL INCOME
(Amounts in Thousands)



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

The Year in Texas' Regions

With one exception, every part of Texas lost jobs in fiscal 1987. Still, the year managed to end on a bright note.

The losses were most severe where oil and gas are most important.

The Gulf Coast lost 63,000 jobs in 1987, a 3.2 percent decline. More than half these losses were from mining and manufacturing.

The area also suffered from a glut of office and commercial space and attendant real estate foreclosures, especially in Houston. This drove down construction employment.

The Plains region, more dependent on oil and gas exploration than any other part of Texas, lost 30,000 jobs, a 4.7 percent decline.

Falling oil and timber prices cost East Texas 5,000 jobs in 1987 (-1.4 percent).

And business in the Metroplex and Central Corridor, previously somewhat independent of oil prices, slowed in 1987, too.

Job losses of less than one percent occurred in the Metroplex (-11,000 jobs) and in the Central Corridor (-7,000 jobs). Both regions were cooled by overbuilding and a slump in high-tech manufacturing.

Only the Texas-Mexico border region escaped 1987 with more jobs than when the year began in September. Border employment was up less than one percent; the area gained 2,000 new jobs.

Most of those new jobs were spun off by manufacturers that expanded to take advantage of an improved world market for electronics. The region was also helped by the continued growth in the number of so-called twin plants in Mexico.

Despite the growth, unemployment in the region averaged 15.3 percent, and some Border communities had unemployment rates that were among the nation's highest in 1987.

The Central Corridor (7.2 percent) and the Metroplex (6.5 percent) had Texas' lowest unemployment rates in 1987.

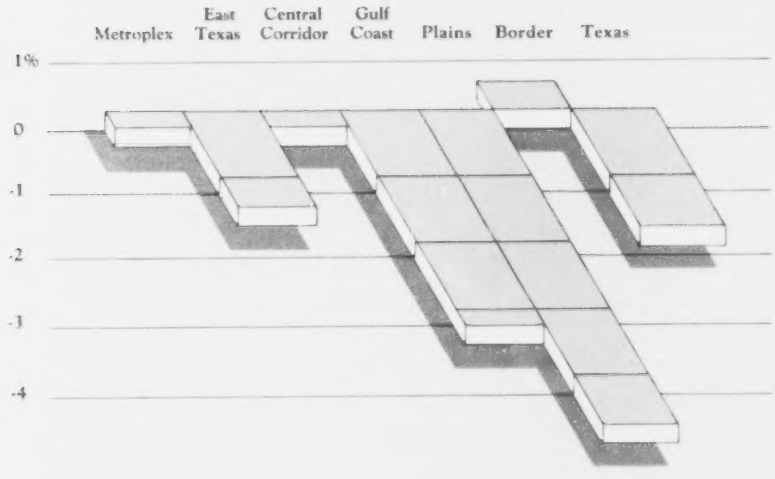
But the news wasn't all bad. Conditions improved in many parts of Texas as 1987 wore on.

Helped by rising oil prices, the year ended with jobs being added along the Gulf Coast in chemicals and oil and gas machinery manufacturing. It also appeared that employment losses were over for oil and gas in the area.

Higher oil prices were slowly turning the Plains economy around, too. And a falling dollar was improving prospects for that area's agribusinesses.

Meanwhile in East Texas, the weaker dollar was reviving the timber industry, and the area was gaining oil-related jobs.

Figure 5
PERCENTAGE CHANGE IN TEXAS NONFARM EMPLOYMENT BY REGION



SOURCE: Texas Employment Commission.

CASH-FLOW PROBLEMS WORSEN IN GENERAL REVENUE FUND

Texas finances during fiscal 1987 were notable in a number of ways.

The state's General Revenue Fund started the year with a record-high cash shortage and ended the year with an even bigger cash deficit.

Also, for the first time since pay-as-you-go government began in 1945, Texas borrowed on Wall Street to pay its bills.

This unprecedented need to borrow from outsiders was accompanied by two reductions of the state's credit rating.

Texas' first year-end deficit followed 23 years (1962-1985) of general revenue surpluses that grew as big as 1982's $1.3 billion. But fiscal 1987 began with the General Revenue Fund $231 million in the hole.

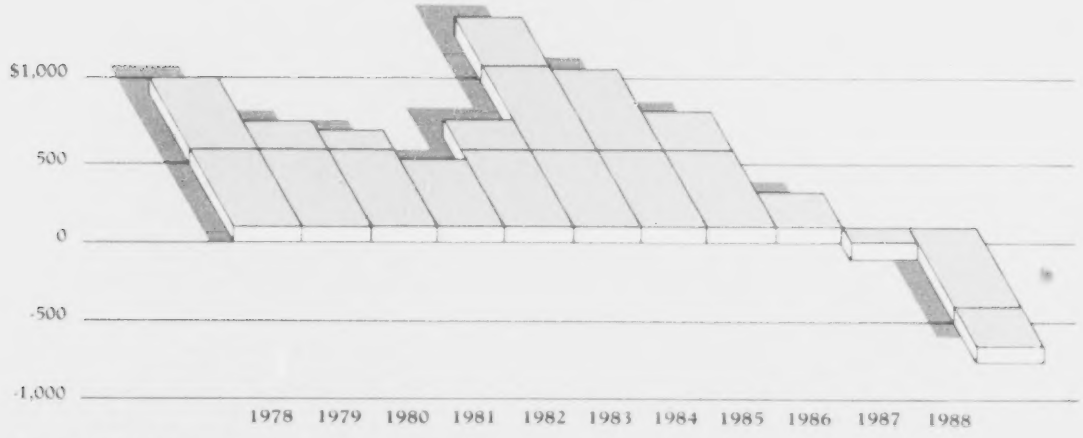
From that negative starting point, the state's cash position worsened. During the first four months of 1987, revenue fell 13 percent below 1986 levels. And the General Revenue Fund balance hit bottom in January with a shortage of $1.5 billion.

To bridge this cash flow gap, Texas borrowed the cash needed to run schools, hospitals, prisons and other state operations.

Figure 6

BEGINNING BALANCE, GENERAL REVENUE FUND

(Amounts in Millions)



SOURCE: Bob Bullock, Comptroller of Public Accounts

Budget Must Balance

The Texas Constitution outlaws deficit financing and requires that the state's two-year budget be in balance when enacted. Before an appropriations bill can become law, the Comptroller must certify that revenues will be sufficient to meet expenditures and retire any deficit that might be carried over from a prior budget.

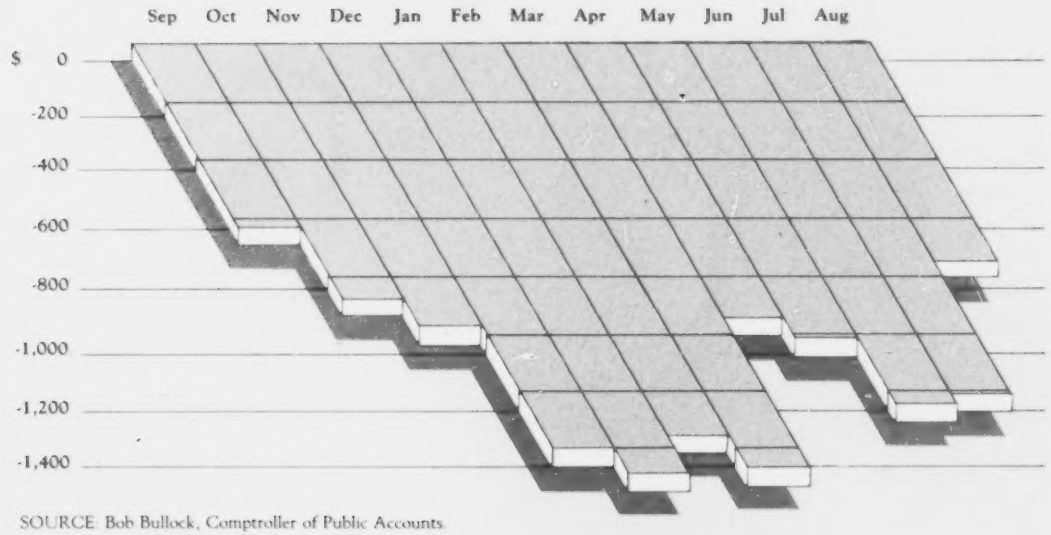
The Constitution does not, however, prevent borrowing during a fiscal year to pay regular state expenses. Even in good times, the state borrows from its own special-purpose funds.

These special-purpose funds support individual programs established by the Constitution or by state law. Money in these funds cannot be spent for general purposes but can be borrowed temporarily within a fiscal year to make up for deficits in general revenue.

The borrowing is necessary when monthly general revenue is insufficient to cover monthly expenses.

For example, a general revenue deficit usually occurs in December. That's when state income is at its annual low point and large payments are made to school districts and to teacher retirement and highway funds.

Figure 7
1987 Net Monthly Balance, General Revenue Fund
(Amounts in Millions)



SOURCE: Bob Bullock, Comptroller of Public Accounts

$600 Million Loan From Wall Street

To cover the 1987 shortfall between revenue and expenses, the state borrowed on Wall Street by issuing $600 million in cash management notes. The notes were sold in November 1986 and, as required by law, were repaid August 31, the last day of fiscal 1987.

The borrowing was authorized by the Cash Management Note Committee, which was set up by the Legislature in 1986 and is composed of the Governor, Comptroller of Public Accounts and State Treasurer.

By February 1987, revenues began to pick up as a result of rate increases in sales and motor fuels taxes. That upturn in collections continued through the end of fiscal 1987 but was not enough to keep the state's General Revenue Fund from scoring a new record deficit, $745 million, by the end of fiscal 1987.

This end-of-year deficit would have been three times bigger--more than $2 billion--had the Legislature not approved revenue and spending measures during two special sessions in August and September 1986. The Legislature raised about $700 million in additional taxes for 1987 and cut spending by about $800 million.

An historic, $5.7 billion tax increase for the next two years passed the Legislature in August 1987 to pay off the $745 million deficit left over from fiscal 1987 and to accomodate changes in the Texas economy.

But these new taxes didn't fill state coffers immediately. A cash-flow problem existed at the beginning of fiscal 1988. To cover seasonal spending needs, the Cash Management Note Committee in July authorized the sale of $1.3 billion in notes.

REVENUE AND EXPENDITURES

State Revenue

Texas collected $20.1 billion in total net revenue in all funds for the fiscal year that ended August 31, 1987. Revenue to funds 1-899, which excludes trust and suspense funds, totaled $17.8 billion in fiscal 1987--a 3.0 percent decrease from 1986.

Tax collections were the state's largest revenue source.

Table 2
NET REVENUE BY SOURCE AND OPENING CASH BALANCES
FUNDS 1-899
Year Ended August 31, 1987

	1983	1984	1985	1986	1987
Tax Collections By Major Tax					
Sales Tax	$ 3,304,614,441	$ 3,784,764,540	$ 4,191,844,449	$ 4,329,870,862	$ 4,616,532,669
Oil Production Tax	1,190,086,803	1,120,162,035	1,040,170,630	769,222,794	533,189,754
Natural Gas Production Tax	1,061,226,753	1,095,485,322	1,122,847,619	778,703,230	644,861,860
Motor Fuels Taxes (Gasoline, Diesel, LPG)	490,373,725	531,730,154	986,869,546	1,011,478,723	1,273,135,834
Motor Vehicle Sales and Rental Taxes	584,318,969	717,523,433	894,991,465	865,963,093	802,836,848
Franchise Tax	555,312,183	606,792,949	855,546,979	901,046,009	873,796,811
Cigarette and Tobacco Taxes	354,964,084	340,271,451	373,721,605	378,715,314	370,842,764
Alcoholic Beverages Taxes	271,921,642	284,803,671	332,887,462	348,022,634	325,506,870
Insurance Companies Taxes	223,693,492	362,459,870	367,757,114	408,886,583	423,256,676
Utility Taxes	224,505,684	210,972,850	210,219,808	197,683,548	185,870,560
Inheritance Tax	88,396,389	97,543,483	147,690,405	119,457,147	113,741,731
Telephone Tax	84,905,819	84,756,554	110,648,410	36,613,409	24,441,738
Hotel and Motel Tax	40,594,441	44,899,926	60,940,910	65,030,260	62,677,809
Other Taxes	22,902,700	23,673,254	25,071,860	20,976,605	15,470,857
TOTAL TAX COLLECTIONS	8,497,817,125	9,305,839,492	10,721,208,262	10,231,670,211	10,266,162,781
Revenue By Source					
Tax Collections	8,497,817,125	9,305,839,492	10,721,208,262	10,231,670,211	10,266,162,781
Federal Funding	2,848,870,321	3,114,983,206	3,469,875,012	4,109,472,582	4,078,102,385
Interest Income	803,482,042	862,940,478	1,001,240,348	1,104,704,403	1,083,595,979
Licenses and Fees	542,238,626	648,054,472	848,181,900	1,136,281,778	1,233,139,104
Land Income: Rents, Royalties, Sales	582,286,183	589,787,891	555,886,790	855,704,880	281,336,789
Other Revenue Sources	300,653,493	400,343,841	568,658,821	960,723,046	898,428,929
TOTAL NET REVENUE	13,575,347,790	14,921,949,380	17,165,051,133	18,398,556,900	17,840,765,967
Receipts to Petty Cash Accounts	701,216	323,672	292,960	1,930,496	463,034
Opening Net Cash Balances, September 1					
State Treasury	2,859,710,368	2,222,035,704	2,048,614,861	2,071,074,028	1,860,283,729
Petty Cash Funds	2,840,440	3,275,282	3,564,248	3,790,551	5,387,828
Total, Opening Net Cash Balances, September 1	2,862,550,808	2,225,310,986	2,052,179,109	2,074,864,579	1,865,671,557
TOTAL NET REVENUE AND OPENING CASH BALANCES	$16,438,599,814	$17,147,584,038	$19,217,523,202	$20,475,351,975	$19,706,900,558

Tax Collections
[Tables 2-6]

Aided by temporary rate increases, state tax receipts held steady in fiscal 1987.

Taxes for the year totaled $10.3 billion, a scant three-tenths of one percent more than was received in 1986.

The tax increases were passed in a special session of the Legislature in September 1986. Effective January 1, the sales tax rate went from 4.125 percent to 5.25 percent, and the rates on motor fuels taxes went from 10 cents per gallon to 15 cents per gallon.

Those two taxes and the insurance companies taxes were the only three tax categories that brought in more money in 1987 than in 1986. Receipts of every other tax declined from last year's levels.

Table 3
PERCENTAGE OF NET REVENUE BY SOURCE
FUNDS 1-899

	Percentage of Total				
	1983	1984	1985	1986	1987
Tax Collections By Major Tax					
Sales Tax	38.9%	40.7%	39.1%	42.3%	45.0%
Oil Production Tax	14.0	12.0	9.7	7.5	5.2
Natural Gas Production Tax	12.5	11.8	10.5	7.6	6.3
Motor Fuels Taxes (Gasoline, Diesel, LPG)	5.8	5.7	9.2	9.9	12.4
Motor Vehicle Sales and Rental Taxes	6.9	7.7	8.3	8.5	7.8
Franchise Tax	6.5	6.5	8.0	8.8	8.5
Cigarette and Tobacco Taxes	4.2	3.7	3.5	3.7	3.6
Alcoholic Beverages Taxes	3.2	3.1	3.1	3.4	3.2
Insurance Companies Taxes	2.6	3.9	3.4	4.0	4.1
Utility Taxes	2.6	2.3	2.0	1.9	1.8
Inheritance Tax	1.0	1.0	1.4	1.2	1.1
Telephone Tax	1.0	0.9	1.0	0.4	0.2
Hotel and Motel Tax	0.5	0.5	0.6	0.6	0.6
Other Taxes	0.3	0.2	0.2	0.2	0.2
TOTAL TAX COLLECTIONS	100.0%	100.0%	100.0%	100.0%	100.0%
Revenue By Source					
Tax Collections	62.6%	62.4%	62.5%	55.6%	57.5%
Federal Funding	21.0	20.9	20.2	22.3	22.9
Interest Income	5.9	5.8	5.8	6.0	6.1
Licenses and Fees	4.0	4.3	5.0	6.2	6.9
Land Income: Rents, Royalties, Sales	4.3	4.0	3.2	4.7	1.6
Other Revenue Sources	2.2	2.6	3.3	5.2	5.0
TOTAL NET REVENUE	100.0%	100.0%	100.0%	100.0%	100.0%

The sales tax hike accounted for $571 million of that tax's total $4.6 billion in 1987 revenue. Thanks to the increase, sales tax receipts rose 6.6 percent above 1986's $4.3 billion. Without the rate hike, sales tax collections would have declined 6.6 percent.

Sales taxes amounted to 45 percent of 1987 total tax collections--the biggest percentage ever.

Motor fuels taxes brought in $1.3 billion in 1987. That figure was 25.9 percent more than last year. Like the sales tax, most of the increase resulted from the 1987 tax increase. Without the increase, receipts would have been $273 million less than they were.

Insurance companies taxes were the only others to show an increase in 1987. Rising 3.5 percent from $408.9 million in 1986 to $423.3 mil-

Continued on page 14

Table 4
Annual Percentage Change in Net Revenue by Source
Funds 1-899

	Percentage Change from Prior Year			
	1984	1985	1986	1987
Tax Collections By Major Tax				
Sales Tax	14.5%	10.8%	3.3%	6.6%
Oil Production Tax	-5.9	-7.1	-26.0	-30.7
Natural Gas Production Tax	3.2	2.5	-30.6	-17.2
Motor Fuels Taxes (Gasoline, Diesel, LPG)	8.4	85.6	2.5	25.9
Motor Vehicle Sales and Rental Taxes	22.8	24.7	-3.2	-7.3
Franchise Tax	9.3	41.0	5.3	-3.0
Cigarette and Tobacco Taxes	-4.1	9.8	1.3	-2.1
Alcoholic Beverages Taxes	4.7	16.9	4.5	-6.5
Insurance Companies Taxes	62.0	1.5	11.2	3.5
Utility Taxes	-6.0	-0.4	-6.0	-6.0
Inheritance Tax	10.3	51.4	-19.1	-4.8
Telephone Tax	-0.2	30.5	-66.9	-33.2
Hotel and Motel Tax	10.6	35.7	6.7	-3.6
Other Taxes	3.4	5.9	-16.3	-26.2
TOTAL TAX COLLECTIONS	9.5%	15.2%	-4.6%	0.3%
Revenue By Source				
Tax Collections	9.5%	15.2%	-4.6%	0.3%
Federal Funding	9.3	11.4	18.4	-0.8
Interest Income	7.4	16.0	10.3	-1.9
Licenses and Fees	19.5	30.9	34.0	8.5
Land Income: Rents, Royalties, Sales	1.3	-5.7	53.9	-67.1
Other Revenue Sources	33.2	42.0	68.9	-6.5
TOTAL NET REVENUE	9.9%	15.0%	7.2%	-3.0%

Table 5
Tax Rates and Taxable Bases for Major Texas State Taxes[1]
Fiscal 1987

Description of Tax	Rate and Base
Sales and Use Tax	4.125% of the retail sale price of tangible personal property; 5.25% on 1/1/87.
Natural and Casinghead Gas Tax	7.5% of the market value of gas produced in the state.
Oil Production and Regulation Taxes	Production: 4.6% of the market value of oil produced in the state. Regulation: 3/16 of 1¢ on each barrel produced.
Motor Fuels Taxes	Motor Fuels Tax: 10¢/gallon of gasoline; 15¢/gallon on 1/1/87. Special Fuels Taxes: Diesel Fuel - 10¢/gallon; 15¢/gallon on 1/1/87. Liquefied Gas - 10¢/gallon; 15¢/gallon on 1/1/87. Gasohol - minimum 5¢/gallon; 11¢/gallon on 1/1/87. maximum 10¢/gallon; 15¢/gallon on 1/1/87.
Motor Vehicle Sales and Rental Taxes	Sales: 5% of vehicle sales price, less any trade-in. Rental: 5% of gross rental receipts. Interstate Carriers: A 5% apportioned tax is due on certain motor vehicles, trailers, semitrailers and buses operated on an interstate basis by carriers who are residents of Texas or who are domiciled or doing business in Texas.
Cigarette and Tobacco Products Taxes	Cigarette: $10.25 per 1,000--20.5¢ per pack of 20. Cigar and Tobacco Products: based on weight per 1,000 and selling price: (1) cigars weighing not more than 3 pounds per 1,000--1¢ for every 10 cigars; (2) cigars weighing more than 3 pounds per 1,000 and retailing for not more than 3.3¢ each--$7.50 per 1,000; (3) cigars weighing more than 3 pounds per 1,000 and selling for over 3.3¢ each, containing no substantial amounts of nontobacco ingredients--$11.00 per 1,000; (4) cigars weighing more than 3 pounds per 1,000 and selling for over 3.3¢ each, containing substantial amounts of nontobacco ingredients--$15.00 per 1,000; (5) chewing, snuff, pipe or smoking tobacco--25% of the factory list price exclusive of discounts.
Franchise Tax	Domestic and foreign corporations, unless otherwise provided for, pay whichever yields the greater tax: (1) $5.25 per $1,000 of taxable capital and surplus; (2) $68.00.
Alcoholic Beverages Taxes	Beer: $6.00/barrel. Liquor: $2.40/gallon. Wine: Alcoholic volume not over 14%--20.4¢/gallon. More than 14%--40.8¢/gallon. Sparkling wine--51.6¢/gallon. Malt Liquor (Ale): 19.8¢/gallon. Mixed Drinks Gross Receipts: 12% of gross receipts. Airline/Passenger Train Beverage Tax: 5¢ per serving.
Insurance Companies Taxes	Life, Health and Accident Insurance Companies Rates 2.5% of gross premium receipt if the value of Texas investments is less than 90% of similar investment in the comparison state. 1.8% if value is between 90% and 100% 1.1% if value is greater than 100% If a carrier collects total gross premiums of less than $450,000, the tax rate is 1/2 the rate determined above.

Table 5 (Continued)
TAX RATES AND TAXABLE BASES FOR MAJOR TEXAS STATE TAXES[1]
FISCAL 1987

Insurance Companies Taxes (Continued)	Fire and Casualty Insurance Companies Rate 3.5% of gross premium receipts if the value of Texas investments is less than 85% of similar investments in the comparison state. 2.4% if value is 85% to 90% 1.2% if value is greater than 90% Unauthorized Insurance Premium Rate 3.85% of gross premiums charged Surplus Lines Insurance Rate 3.85% of gross premiums charged (Comparison state is defined as the state--other than Texas--in which an insurance carrier owns the largest amount of investments.)
Inheritance Tax	A tax equal to the amount of the federal credit is imposed on the transfer of property at death.
Utility Taxes	Public Utility Gross Receipts: 1/6 of 1% of gross receipts. Gas, Electric and Water Utility: (1) Cities 1,000-2,500 pop.--.581% of gross receipts; (2) cities 2,500-10,000 pop.--1.070%; (3) cities 10,000 pop. or more--1.997%. Gas Utility Administration: 1/4 of 1% of gross receipts of gas utility.
Telephone Tax	(1) Cities less than 2,500 pop.--1.65% of gross receipts, on basic local exchange service; (2) Cities 2,500-10,000 pop.--1.925%; (3) Cities 10,000 pop. or more--2.5025%.
Hotel and Motel Tax	4% of consideration paid by occupant.
Manufactured Housing Tax	5% of 65% of the manufacturer's selling price.

[1]Taxes not shown include: Cement Tax, Oil and Gas Well Servicing Tax, Bingo Tax, Sulphur Tax, Coin-operated Amusement Machine Tax and minor occupation taxes.
SOURCE: Comptroller of Public Accounts, Manual of Accounts, Volume II-Revenue (Austin, 1986) and House Bill 79, Acts of the 69th Legislature, 3rd Called Session, 1986.

Tax Collections
Continued

lion in 1987, the increase resulted from higher premiums charged by insurance companies and from an insurance maintenence tax-rate hike enacted by the State Board of Insurance.

The amount of revenue brought in by every other tax shrank in 1987.

The decline was largely a continuation of problems that surfaced in fiscal 1986 when oil prices and production plummeted.

Even though oil prices rebounded by 54 percent during 1987, that was not enough to make up for declines in oil production during the year. Consequently, oil and gas severance taxes amounted to only $1.2 billion, $370 million less than in 1986 and just half of 1982's oil and gas tax receipts.

But oil and gas weren't the only weak spots.

The state recession spread clear across the economy. Oil and gas, manufacturing, utilities--all suffered. That put pressure on the state's third most important tax--the franchise tax--which fell three percent, bringing in $874 million. It hurt every other tax, too.

Table 6
Texas Per Capita State Tax Collections

Fiscal Year	State Tax Collections	Resident Population	Per Capita Tax Collections	Percentage Change	Taxes as a Percentage of Personal Income
1970	$ 1,782,640,152	11,199,000	$159.18	-%	4.53%
1971	1,992,055,564	11,510,000	173.07	8.7	4.69
1972	2,341,326,235	11,759,000	199.11	15.0	4.99
1973	2,582,903,255	12,019,000	214.90	7.9	4.80
1974	3,026,705,043	12,268,000	246.72	14.8	4.98
1975	3,367,751,883	12,568,000	267.96	8.6	4.90
1976	3,913,827,072	12,903,000	303.33	13.2	5.00
1977	4,419,881,616	13,192,000	335.04	10.5	4.99
1978	5,032,274,299	13,498,000	372.82	11.3	4.94
1979	5,390,313,009	13,887,000	388.16	4.1	4.54
1980	6,343,785,161	14,229,191r	445.83	14.9	4.66r
1981	7,742,032,894	14,766,000r	524.31	17.6	5.06r
1982	8,650,025,743	15,376,000r	562.57	7.3	5.03r
1983	8,497,817,125	15,818,000r	537.22	-4.5	4.71r
1984	9,305,839,492	16,083,000r	578.61	7.7	4.71r
1985	10,721,208,262	16,389,000r	654.17	13.1	5.00r
1986	10,231,670,211	16,685,000r	613.23r	-6.3r	4.73r
1987	10,266,162,781	16,863,000e	608.80e	-0.7e	4.57e

SOURCES: Tax collection data were compiled from Texas Comptroller of Public Accounts, *Annual Financial Report* (Austin: various years). Population and personal income figures are from U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis. 1987 population and personal income are based on Comptroller of Public Accounts estimates.

e - estimated
r - revised

Federal Funds
[Tables 7-8]

Texas received $4.08 billion in federal funds during fiscal 1987, 0.8 percent less than the $4.11 billion received in 1986.

The state uses this money to administer highway construction, welfare, pollution control and other federal programs.

Table 7 shows matched and unmatched federal funds. The state must put up an amount specified by the federal government for a program before it can receive matching funds.

Table 7
Federal Fund Revenue by Program Category
Funds 1-899
Year Ended August 31, 1987

Program Category	1983	1984	1985	1986	1987
Welfare					
Matched	$1,180,994,302	$1,182,805,067	$1,331,199,453	$1,351,726,505	$1,574,266,018
Unmatched	98,226,411	104,540,760	123,677,968	122,868,019	102,475,468
	1,279,220,713	1,287,345,827	1,454,877,421	1,474,594,524	1,676,741,486
Education					
Matched	4,004,399	3,471,033	4,573,788	6,056,911	5,895,876
Unmatched	617,651,176	603,766,877	631,822,331	701,077,943	701,762,543
	621,655,575	607,237,910	636,396,119	707,134,854	707,658,419
Highways Transportation					
Matched	453,014,599	559,808,746	646,379,837	918,604,539	848,229,860
Unmatched	225,498	241,713	188,008	193,384	566,376
	453,240,097	560,050,459	646,567,845	918,797,923	848,796,236
Health Social Rehabilitative Services					
Matched	130,394,625	154,266,823	192,638,801	210,886,564	157,685,457
Unmatched	193,718,340	290,053,497	331,438,047	364,713,440	426,709,386
	324,112,965	444,320,320	524,076,848	575,600,004	584,394,843
Revenue Sharing					
Unmatched	2,321,281	0	0	0	0
	2,321,281	0	0	0	0
Unemployment Compensation					
Unmatched	117,935,082	131,653,713	133,005,784	135,005,304	147,654,505
	117,935,082	131,653,713	133,005,784	135,005,304	147,654,505
Public Safety Law Enforcement					
Matched	6,794,584	9,303,042	15,237,372	28,625,694	33,825,249
Unmatched	4,603,046	36,313,006	15,249,131	9,670,370	13,257,533
	11,397,630	45,616,048	30,486,503	38,296,064	47,082,782
Natural Resources Environmental Protection					
Matched	16,618,101	18,664,086	22,769,843	23,070,720	25,506,925
Unmatched	13,586,184	11,789,862	11,063,058	13,479,966	13,714,302
	30,204,285	30,453,948	33,832,901	36,550,686	39,221,227
General Government					
Matched	4,210,333	2,116,181	57,168	53,055	1,582
Unmatched	302,096	1,416,814	3,211,012	216,335,751	19,131,169
	4,512,429	3,532,995	3,268,180	216,388,806	19,132,751
Other					
Matched	1,836,665	2,179,568	3,347,355	3,183,538	3,226,324
Unmatched	2,433,598	2,592,418	4,016,056	3,920,879	4,193,812
	4,270,263	4,771,986	7,363,411	7,104,417	7,420,136
TOTAL MATCHED	1,797,867,608	1,932,614,546	2,216,203,617	2,542,207,526	2,648,637,291
TOTAL UNMATCHED	1,051,002,712	1,182,368,660	1,253,671,395	1,567,265,056	1,429,465,094
GRAND TOTAL	$2,848,870,320	$3,114,983,206	$3,469,875,012	$4,109,472,582	$4,078,102,385

Table 8
Federal Funds Revenue by Agency
Funds 1-899
Year Ended August 31, 1987

Agency	1983	1984	1985	1986	1987
Department of Human Services	$1,279,220,713	$1,287,345,828	$1,454,877,420	$1,474,594,524	$1,676,740,837
Highways & Public Transportation	455,694,498	563,432,141	653,875,208	925,697,764	854,788,425
Texas Education Agency	609,223,841	594,950,735	626,589,110	699,329,963	699,304,368
Department of Community Affairs	40,212,559	139,127,999	195,039,705	230,541,528	237,242,829
Department of Health	104,671,108	125,101,632	142,896,109	153,785,754	157,041,643
Texas Employment Commission	117,621,548	131,650,961	133,005,784	135,005,304	147,654,505
Texas Rehabilitation Commission	91,415,087	90,977,713	94,116,854	101,507,813	103,834,116
Texas Department on Aging	42,198,981	45,972,139	45,623,005	47,102,606	44,393,471
Mental Health & Mental Retardation	25,271,938	24,339,035	26,660,597	21,328,677	20,714,540
All Other	83,340,047	112,085,023	97,191,220	320,578,649	136,387,651
TOTAL ALL AGENCIES	$2,848,870,320	$3,114,983,206	$3,469,875,012	$4,109,472,582	$4,078,102,385

State Expenditures
Expenditures by Function
[Tables 9-11]

State government spending in fiscal 1987 was down 3.9 percent from the previous fiscal year as Texas spent $17.8 billion to carry out the functions of state government.

Spending declined in 1987 largely because the Legislature cut the budget in two back-to-back special sessions.

Lawmakers, meeting in August 1986, cancelled a three-percent pay raise scheduled for state employees in 1987. That action saved $237 million.

They also changed the date when state employees are paid. Before this change, state workers were paid on the last day of the month. The new law moved their payday to the first of the month. Thus the state paid its employees for work done in August 1987 on September 1.

(Continued on page 20)

Table 9
NET EXPENDITURES BY FUNCTION AND CLOSING CASH BALANCES
FUNDS 1-899
Year Ended August 31, 1987

	1983	1984	1985	1986	1987
ADMINISTRATIVE					
Executive Departments	$ 327,454,140	$ 372,763,316	$ 392,905,046	$ 424,530,575	$ 401,981,131
Business Regulatory Commissions	86,937,298	106,220,526	120,130,948	134,360,295	130,827,199
Legislative	40,838,300	44,383,241	48,707,382	42,631,391	47,779,911
Judicial	39,789,272	45,513,231	47,054,964	48,430,375	44,667,454
Total	495,019,010	568,880,314	608,798,340	649,952,636	625,255,695
SERVICES					
Welfare	2,150,383,583	2,315,710,019	2,421,818,215	2,517,857,871	2,870,681,737
Mental Health, State Homes and Corrections	806,685,089	864,077,112	929,570,099	1,011,723,303	967,421,415
Health and Sanitation	226,719,451	210,728,367	245,545,812	225,218,148	205,124,279
Law Enforcement	144,804,550	160,192,233	164,490,953	170,443,625	152,939,854
Total	3,328,592,673	3,550,707,731	3,761,425,079	3,925,242,947	4,196,167,285
IMPROVEMENTS					
Highway Maintenance and Construction	1,520,847,570	1,437,715,827	1,553,256,070	2,428,919,023	2,428,563,886
Natural Resources	135,636,670	138,424,738	151,909,954	156,909,765	148,203,898
Parks and Monuments	72,115,362	83,730,675	92,601,762	89,962,421	100,254,837
Total	1,728,599,602	1,659,871,240	1,797,767,786	2,675,791,209	2,677,022,621
EDUCATION					
Support to State and Local Education	6,346,722,708	6,697,513,750	7,921,515,254	7,899,868,790	7,863,945,605
State Contribution to Teacher Retirement	619,337,873	587,972,019	662,297,683	725,138,636	753,184,410
Total	6,966,060,581	7,285,485,769	8,583,812,937	8,625,007,426	8,617,130,015
OTHER EXPENDITURES					
Grants to Political Subdivisions	401,339,878	581,695,371	637,747,037	708,455,199	688,701,373
Payment of Public Debt	137,666,619	167,847,446	224,503,082	1,298,471,827	317,983,197
State Contribution to Employee Social Security	327,170,232	361,824,972	389,167,128	403,217,092	431,251,924
State Contribution to Employee Retirement	136,331,236	152,573,580	161,681,853	161,325,447	164,464,415
Miscellaneous	18,696,631	20,030,771	21,787,905	35,675,231	35,193,326
Total	1,021,204,596	1,283,972,140	1,434,887,005	2,607,144,796	1,637,594,235
TOTAL NET EXPENDITURES	$13,539,476,462	$14,348,917,194	$16,186,691,147	$18,483,139,014	$17,753,169,851
Net Interfund Transfers and Investment Transactions	$ 673,545,991	$ 746,453,029	$ 955,900,819	$ 126,208,184	$ 1,012,702,922
Expenditures from Petty Cash to State Treasury	266,375	34,706	66,657	333,220	107,828
Closing Net Cash Balances, August 31					
State Treasury	2,222,035,704	2,048,614,861	2,071,074,028	1,860,283,729	935,176,923
Petty Cash	3,275,282	3,564,248	3,790,551	5,387,828	5,743,034
Total, Closing Net Cash Balances, August 31	2,225,310,986	2,052,179,109	2,074,864,579	1,865,671,557	940,919,957
TOTAL NET EXPENDITURES AND CLOSING CASH BALANCES	$16,438,599,814	$17,147,584,038	$19,217,523,202	$20,475,351,975	$19,706,900,558

Table 10
Percentage of Net Expenditures by Function
Funds 1-899

	Percentage of Total				
	1983	1984	1985	1986	1987
ADMINISTRATIVE					
Executive Departments	2.4%	2.6%	2.4%	2.3%	2.3%
Business Regulatory Commissions	0.7	0.8	0.8	0.7	0.7
Legislative	0.3	0.3	0.3	0.2	0.3
Judicial	0.3	0.3	0.3	0.3	0.2
Total	3.7	4.0	3.8	3.5	3.5
SERVICES					
Welfare	15.9	16.1	15.0	13.6	16.2
Mental Health, State Homes and Corrections	5.9	6.0	5.7	5.5	5.4
Health and Sanitation	1.7	1.5	1.5	1.2	1.2
Law Enforcement	1.1	1.1	1.0	0.9	0.9
Total	24.6	24.7	23.2	21.2	23.7
IMPROVEMENTS					
Highway Maintenance and Construction	11.2	10.0	9.6	13.1	13.7
Natural Resources	1.0	1.0	0.9	0.9	0.8
Parks and Monuments	0.6	0.6	0.6	0.5	0.6
Total	12.8	11.6	11.1	14.5	15.1
EDUCATION					
Support to State and Local Education	46.9	46.7	48.9	42.8	44.3
State Contribution to Teacher Retirement	4.5	4.1	4.1	3.9	4.2
Total	51.4	50.8	53.0	46.7	48.5
OTHER EXPENDITURES					
Grants to Political Subdivisions	3.0	4.0	4.0	3.8	3.9
Payment of Public Debt	1.0	1.2	1.4	7.0	1.8
State Contribution to Employee Social Security	2.4	2.5	2.4	2.2	2.4
State Contribution to Employee Retirement	1.0	1.1	1.0	0.9	0.9
Miscellaneous	0.1	0.1	0.1	0.2	0.2
Total	7.5	8.9	8.9	14.1	9.2
TOTAL NET EXPENDITURES	100.0%	100.0%	100.0%	100.0%	100.0%

Expenditures by Function
Continued

That moved the final month of fiscal 1987 payroll into fiscal 1988, a one-time saving of $228 million.

The Legislature trimmed state spending further in another special session in September. Those cuts were aimed primarily at higher education and general administration.

Table 11
ANNUAL PERCENTAGE CHANGE IN NET EXPENDITURES BY FUNCTION FUNDS 1-899

	Percentage Change from Prior Year			
	1984	1985	1986	1987
ADMINISTRATIVE				
Executive Departments	13.8%	5.4%	8.0%	-5.3%
Business Regulatory Commissions	22.2	13.1	11.8	-2.6
Legislative	8.7	9.7	-12.5	12.1
Judicial	14.4	3.4	2.9	-7.8
Total	14.9	7.0	6.8	-3.8
SERVICES				
Welfare	7.7	4.6	4.0	14.0
Mental Health, State Homes and Corrections	7.1	7.6	8.8	-4.4
Health and Sanitation	-7.1	16.5	-8.3	-8.9
Law Enforcement	10.6	2.7	3.6	-10.3
Total	6.7	5.9	4.4	6.9
IMPROVEMENTS				
Highway Maintenance and Construction	-5.5	8.0	56.4	0.0
Natural Resources	2.1	9.7	3.3	-5.5
Parks and Monuments	16.1	10.6	-2.9	11.4
Total	-4.0	8.3	48.8	0.0
EDUCATION				
Support to State and Local Education	5.5	18.3	-0.3	-0.5
State Contribution to Teacher Retirement	-5.1	12.6	9.5	3.9
Total	4.6	17.8	0.5	-0.1
OTHER EXPENDITURES				
Grants to Political Subdivisions	44.9	9.6	11.1	-2.8
Payment of Public Debt	21.9	33.8	478.4	-75.5
State Contribution to Employee Social Security	10.6	7.6	3.6	7.0
State Contribution to Employee Retirement	11.9	6.0	-0.2	1.9
Miscellaneous	7.1	8.8	63.7	-1.4
Total	25.7	11.8	81.7	-37.2
TOTAL NET EXPENDITURES	6.0%	12.8%	14.2%	-3.9%

Spending was also reduced in 1987 by a $980 million drop in the payment of public debt. This decline occurred because the state did not refund bonds in 1987 as it did in 1986 when low interest rates made refinancing attractive.

Spending did not decline across the board in 1987. Most notably, welfare expenditures surged by 14 percent. The $353 million increase helped pay for aid to families with dependent children, health care for the aged and needy, protective services for abused children and similar programs.

As usual, the state spent the biggest amount of its money on education in 1987. Paying for public schools and universities and state teacher retirement took $8.6 billion, an amount virtually unchanged from 1986.

Expenditures by Object
[Tables 12-14]

The Texas Education Agency spent the largest amount of state money on a single item--or object--in 1987.

(Continued on page 23)

Table 12
NET EXPENDITURES BY OBJECT
FUNDS 1-899
Year Ended August 31, 1987

	1983	1984	1985	1986	1987
Salaries and Wages	$ 3,085,639,907	$ 3,269,715,574	$ 3,509,951,720	$ 3,618,163,675	$ 3,410,269,675
Other Personal Services	1,314,721,391	1,372,356,301	1,532,854,334	1,675,864,939	1,766,519,803
Consumable Supplies and Materials	370,236,754	362,415,919	411,136,967	411,742,479	369,959,015
Current and Recurring Operating Expenses	596,260,222	645,481,446	663,244,719	697,684,608	658,179,279
Assistance and Medical Care for Needy	1,712,309,794	1,849,505,164	1,919,705,902	1,992,541,049	2,370,167,029
Foundation School Program Grants	3,474,963,280	3,691,244,791	4,718,451,356	4,676,241,724	4,807,441,125
Other Public Education Grants	603,262,229	593,202,720	627,460,867	691,868,965	689,537,991
Grants to Higher Education	467,062,195	521,038,082	565,188,033	534,907,463	491,675,409
Other Grants	401,339,878	581,695,371	637,747,037	708,455,199	688,701,373
Payment of Principal on Indebtedness	104,345,201	74,729,000	80,263,790	1,148,085,413	74,255,283
Payment of Interest and Other Claims	72,842,911	94,404,470	145,136,702	158,926,090	246,512,883
Capital Outlay for Highways	781,240,769	788,557,285	836,169,759	1,519,246,782	1,556,938,760
Capital Outlay for Land and Buildings	296,993,740	242,938,361	236,206,253	287,698,563	248,706,528
Other Capital Outlay	258,258,191	261,632,710	303,173,708	361,712,065	374,305,698
TOTAL NET EXPENDITURES	$13,539,476,462	$14,348,917,194	$16,186,691,147	$18,483,139,014	$17,753,169,851

Table 13
Percentage of Net Expenditures by Object
Funds 1-899

	Percentage of Total				
	1983	1984	1985	1986	1987
Salaries and Wages	22.8%	22.8%	21.7%	19.6%	19.2%
Other Personal Services	9.7	9.6	9.5	9.1	9.9
Consumable Supplies and Materials	2.7	2.5	2.5	2.2	2.1
Current and Recurring Operating Expenses	4.4	4.5	4.1	3.8	3.7
Assistance and Medical Care for Needy	12.6	12.9	11.8	10.8	13.3
Foundation School Program Grants	25.7	25.7	29.2	25.3	27.1
Other Public Education Grants	4.5	4.1	3.9	3.7	3.9
Grants to Higher Education	3.4	3.6	3.5	2.9	2.8
Other Grants	3.0	4.1	3.9	3.8	3.9
Payment of Principal on Indebtedness	0.8	0.5	0.5	6.2	0.4
Payment of Interest and Other Claims	0.5	0.7	0.9	0.9	1.4
Capital Outlay for Highways	5.8	5.5	5.2	8.2	8.8
Capital Outlay for Land and Buildings	2.2	1.7	1.4	1.6	1.4
Other Capital Outlay	1.9	1.8	1.9	1.9	2.1
TOTAL NET EXPENDITURES	100.0%	100.0%	100.0%	100.0%	100.0%

Table 14
Annual Percentage Change in Net Expenditures by Object
Funds 1-899

	Percentage Change from Prior Year			
	1984	1985	1986	1987
Salaries and Wages	6.0%	7.3%	3.1%	-5.7%
Other Personal Services	4.4	11.7	9.3	5.4
Consumable Supplies and Materials	-2.1	13.4	0.1	-10.1
Current and Recurring Operating Expenses	8.3	2.8	5.2	-5.7
Assistance and Medical Care for Needy	8.0	3.8	3.8	19.0
Foundation School Program Grants	6.2	27.8	-0.9	2.8
Other Public Education Grants	-1.7	5.8	10.3	-0.3
Grants to Higher Education	11.6	8.5	-5.4	-8.1
Other Grants	44.9	9.6	11.1	-2.8
Payment of Principal on Indebtedness	-28.4	7.4	1,330.4	-93.5
Payment of Interest and Other Claims	29.6	53.7	9.5	55.1
Capital Outlay for Highways	0.9	6.0	81.7	2.5
Capital Outlay for Land and Buildings	-18.2	-2.8	21.8	-13.6
Other Capital Outlay	1.3	15.9	19.3	3.5
TOTAL NET EXPENDITURES	6.0%	12.8%	14.2%	-3.9%

Expenditures by Object
Continued

The TEA administers the state's Foundation School Program. Under that program, grants are made to local schools to pay the state's share of the public school bill. In 1987 those grants amounted to $4.8 billion, 2.8 percent more than in 1986.

The state payroll made up the second biggest expenditure item in 1987. State workers earned a total of $3.4 billion, 5.7 percent less than in 1986. Classified and nonclassified full-time workers employed by state agencies earned $1.5 billion. Full-time faculty at state colleges and universities earned the next-largest amount--$488.7 million.

Flow of Funds to Local Governments
[Table 15]

The State of Texas channeled $7.4 billion to local governments in fiscal 1987.

This money is funneled through state and federal grants and revenue sharing programs. The programs fall into several categories.

Highway and transportation programs provide state and federal money to support local highway, airport and public transit programs and services.

Public safety programs provide money to support law enforcement, traffic safety, civil defense and disaster relief.

The education category includes money channeled to local school districts through the state's Foundation School Program. It also includes programs outside the Foundation School Program such as Distributive Education and the School Lunch Program.

General government, social service and natural resources funding is a catch-all category that includes funding for administrative functions and welfare programs as well as parks and recreational facilities and pollution control programs.

The shared revenue category includes proceeds from the mixed drinks gross receipts tax. A portion of the tax is allocated to cities and counties quarterly.

Taxes collected in trust include local sales and use and metropolitan transit authority taxes. These taxes are collected by the Comptroller for local governments.

Table 15
Flow of Funds to Local Governments
Year Ended August 31, 1987

	Cities	Counties	Metropolitan Transit Authorities	Junior Colleges	School Districts	Total
State Grants						
Highways Transportation	$ 3,764,493	$ 8,249,879	$ -	$	$	$ 12,014,372
Public Safety	5,499,267	8,979,751				14,479,018
Education				415,924,067	4,834,581,451	5,250,505,518
General Government Social Services Natural Resources	11,978,925	15,171,055				27,149,980
TOTAL	21,242,685	32,400,685		415,924,067	4,834,581,451	5,304,148,888
Federal Grants						
Highways Transportation	2,231,058	964,841				3,195,899
Public Safety	1,176,214	586,885				1,763,099
Education				2,245,432	662,397,665	664,643,097
General Government Social Services Natural Resources	106,883,168	32,573,659				139,456,827
TOTAL	110,290,440	34,125,385		2,245,432	662,397,665	809,058,922
Shared Revenue						
Mixed Drinks Gross Receipts Tax	21,215,347	22,988,774				44,204,121
TOTAL	21,215,347	22,988,774				44,204,121
Taxes Collected in Trust						
City Sales Tax	844,975,881					844,975,881
MTA Tax			388,858,525			388,858,525
TOTAL	844,975,881		388,858,525			1,233,834,406
TOTAL FUNDS TO LOCAL GOVERNMENTS	$ 997,724,353	$89,514,844	$388,858,525	$418,169,499	$5,496,979,116	$7,391,246,337

FINANCIAL CONDITION

Cash Condition
[Tables 16-18]

Texas started fiscal 1987 with an opening cash balance of $2.5 billion in all funds. The state's ending cash balance in all funds on August 31, 1987, was $1.7 billion.

Table 16 shows receipts, spending and ending cash balances in each fund category.

The all-funds ending cash balance does not represent cash available for general state spending.

Some of this money is designated for specific purposes. For example, earnings and employee contributions to teacher and employee retirement accounts can be used only for retirement benefits or returned to employees leaving state service.

Also, agencies may have contracts to buy goods or services, but because the state operates on a cash accounting system, a debit is not recorded until money actually is spent.

The best reflection of the state's fiscal health is the General Revenue Fund 001 cash balance. The General Revenue Fund opened fiscal 1987 with a deficit of $231 million and closed with a $745 million deficit.

Investment Accounts
[Tables 19-20]

State agencies had investments worth $30.3 billion deposited in the State Treasury at the close of fiscal 1987.

Various agencies are authorized by law or by the Constitution to invest fund balances in securities. These securities are recorded as paper assets of the fund.

Some of the state funds with investment authority are constitutional, nonexpendable funds. Principal in these funds cannot be appropriated for state spending--only earnings on investments can be appropriated.

For example, assets of the Permanent School Fund 044 cannot be spent, but any income earned on the assets supports public education through the Available School Fund 002.

Table 16
STATEMENT OF CASH CONDITION[1]
Year Ended August 31, 1987

	General Revenue (001)	Special Revenue (002-899)	Trust & Suspense (900-999)	Total All Funds
FUND BALANCE - September 1, 1986				
Cash in State Treasury	$ -231,010,691	$ 2,091,294,420	$ 659,564,071	$ 2,519,847,800
Cash in Petty Cash Accounts	1,273,837	4,113,991	16,699	5,404,527
	-229,736,854	2,095,408,411	659,580,770	2,525,252,327
NET REVENUE				
Tax Collections	9,971,156,583	295,006,198	255	10,266,163,036
Licenses and Fees	261,776,681	1,006,827,748	51,677,851	1,320,282,280
Interest Income	12,664,423	1,070,931,556	1,628,906,725	2,712,502,704
Federal Funding	78,697,294	3,999,405,091	1,263	4,078,103,648
Land Income: Rents, Royalties & Sales	4,036,657	277,300,133	2,319	281,339,109
Other Net Revenue	122,019,509	740,944,094	625,882,747	1,488,846,350
TOTAL NET REVENUE	10,450,351,147	7,390,414,820	2,306,471,160	20,147,237,127
OTHER SOURCES				
Repayment of Loans	40,187	98,116,852	871,331,689	969,488,728
Bond Sale Proceeds	0	150,000,000	0	150,000,000
Proceeds from Sale of Cash Management Notes	0	614,802,463	0	614,802,463
Sale/Redemption of Investments	0	9,324,603,909	4,691,178,875	14,015,782,784
School Bus Repayments	0	51,447,612	0	51,447,612
Deposits to Trust and Suspense	203,074	21,711,929	6,269,509,277	6,291,424,280
Direct Deposit Transfers	0	0	995,348,206[2]	995,348,206
Departmental Transfers	231,165,075	56,070,652	397,373	287,633,100
Operating Fund Transfers	3,099,380,794	6,474,381,448	795,915,885	4,170,916,339
Residual Equity Transfers	146,692,640	-140,814,757	-5,877,883	0
TOTAL OTHER SOURCES	2,721,279,818	16,650,320,108	13,617,803,422	27,546,843,712
TOTAL REVENUE AND OTHER SOURCES	$ 7,729,071,329	$ 24,040,734,928	$ 15,924,274,582	$ 47,694,080,839
NET EXPENDITURES				
Legislative	$ 47,779,911	$ 0	$ 0	$ 47,779,911
Judicial	39,591,139	5,076,315	0	44,667,454
Executive	196,365,174	205,615,957	6,037,896	408,019,027
Law Enforcement	21,064,624	131,875,230	0	152,939,854
Business Regulation	71,318,753	59,508,446	294,742	131,121,941
Health and Sanitation	158,189,483	46,934,797	0	205,124,280
Natural Resources	125,084,079	23,119,818	44,739	148,248,636
Highway Maintenance & Construction	418,217	2,428,145,669	0	2,428,563,886
Mental Health, State Homes & Corrections	932,846,252	34,575,163	0	967,421,415
Support to State and Local Education	1,905,367,455	5,958,578,150	0	7,863,945,605
Parks and Monuments	15,978,128	84,276,709	601,649	100,856,486
Welfare	97,484,726	2,773,197,011	49,721,649	2,920,403,386
Payment of Public Debt	35,936,383	282,076,814	542,095,540	860,078,737
Employees Retirement	81,346,723	83,117,691	358,155	164,822,569
Employees Social Security	274,369,543	156,882,381	1,433,619	432,685,543
Grants to Political Subdivisions	208,668,124	480,033,249	20	688,701,353
Contributions to Teacher Retirement	752,078,545	1,105,865	11,443,239	764,627,649
Miscellaneous	12,677,341	22,515,986	13,970	35,207,297
TOTAL NET EXPENDITURES	4,976,534,600	12,776,635,251	612,045,178	18,365,215,029
OTHER USES				
Repayment of Loans	522,535	13,798,713	0	14,321,248
Repayment of Cash Management Notes	0	600,000,000	0	600,000,000
Purchase of Securities	236	10,334,449,419	7,370,293,438	17,704,743,093
Purchases for Resale	3,824,687	87,263,053	0	91,087,740
Misc. Nongovernmental Expenditures	0	51,194,954	0	51,194,954
Trust and Suspense Payments	0	27,831,625	5,948,479,056	5,976,310,681
Teacher & Employee Retirement Payments	7,089,281	15,000	915,396,882	922,501,163
Direct Deposit Transfers	0	0	995,348,219	995,348,219
Departmental Transfers	47,522,326	237,957,604	574,635	286,054,565
Operating Fund Transfers	3,207,789,779	322,484,000	161,765	3,530,435,544
TOTAL OTHER USES	3,266,748,844	11,674,994,368	15,230,253,995	30,171,997,207
TOTAL EXPENDITURES AND OTHER USES	$ 8,243,283,444	$ 24,451,629,619	$ 15,842,299,173	$ 48,537,212,236
Petty Cash Accounts Opened	204,245	258,789	0	463,034
Petty Cash Accounts Closed	-33,949	-73,879	0	-107,828
FUND BALANCE-Year Ended August 31, 1987	$ 743,778,673	$ 1,684,698,630	$ 741,556,179	$ 1,682,476,136
Cash in State Treasury[1]	745,222,805	1,680,399,728	741,539,480	1,676,716,403
Cash in Petty Cash Accounts	1,444,132	4,298,902	16,699	5,759,733

[1] Note 2b.
[2] Excludes $73,719 of 87IK direct deposit transfers for August 1987.

Table 17
Summary of Cash Condition by Fund Group

	Net Cash Balance 9-1-86	Revenue[1]	Expenditures[1]	Net Cash Balance 8-31-87
Group 1: General State Operating and Disbursing Funds	$ 320,520,864	$15,507,527,393	$16,109,195,930	$ -281,147,673
Group 2: Constitutional Funds Expendable for Specific Purposes	1,228,403,124	5,131,073,875	5,372,594,215	986,882,784
Group 3: Federal Funds	196,136,457	1,281,014,530	1,366,663,664	110,487,323
Group 4: Trust or Pledged Funds	1,896,357	5,107,603,523	5,108,367,088	1,132,792
Group 5: Constitutional Nonexpendable Funds	76,360,567	4,640,963,135	4,636,766,079	80,557,623
Group 6: Tax Clearance Funds	35,024,660	106,422,673	109,127,628	32,319,705
Group 7: Petty Cash Funds	- 5,404,528	463,034	107,828	5,759,734
Group 8: Trust Funds	533,405,354	14,917,845,949	14,830,276,124	620,975,179
Group 9: Suspense Funds	128,100,416	1,001,629,760[2]	1,004,221,507	125,508,669
TOTAL CASH, ALL FUNDS	$2,525,252,327	$47,694,543,872[3]	$48,537,320,063[4]	$1,682,476,136

[1]Revenue and Expenditures include Interfund Transfers and Investment Transactions.
[2]Excludes $73,719 of 401K direct deposit transfers for August 1987.
[3]Includes a $463,034 increase to Petty Cash accounts.
[4]Includes a $107,828 decrease from Petty Cash accounts.

Table 18
Summary of Financial Condition, Funds 1-899
Year Ended August 31, 1987

	1983	1984	1985	1986	1987
Opening Cash Balance	$ 2,862,550,808	$ 2,225,310,986	$ 2,052,179,109	$ 2,074,864,579	$ 1,865,671,557
Net Revenue	13,575,347,790	14,921,949,380	17,165,051,133	18,398,556,900	17,840,765,967
Receipts to Petty Cash Accounts	701,216	323,672	292,960	1,930,496	463,034
Total Cash Available	16,438,599,814	17,147,584,038	19,217,523,202	20,475,351,975	19,706,900,558
Less:					
Net Expenditures	13,539,476,462	14,348,917,194	16,186,691,147	18,483,139,014	17,753,169,851
Net Interfund Transfers and Investment Transactions	673,545,991	746,453,029	955,900,819	126,208,184	1,012,702,922
Expenditures from Petty Cash Accounts	266,375	34,706	66,657	333,220	107,828
Closing Net Cash Balance Funds 1-899	2,225,310,986	2,052,179,109	2,074,864,579	1,865,671,557	940,919,957
Investments in State Treasury	17,516,365,905	21,341,630,945	23,149,866,997	26,702,535,729	30,317,827,356
Total Cash and Investments	19,741,676,891	23,393,810,054	25,224,731,576	28,568,207,286	31,258,747,313
Suspense and Trust Cash	462,499,442	530,224,223	633,839,622	659,242,770	745,694,548
Securities in Trust with State Treasury	3,783,181,412	3,021,915,516	3,203,561,826	3,013,383,710	1,615,533,720
Account with Federal Treasury	0	0	10,608,140	338,000	806,000
TOTAL CASH, INVESTMENTS AND SECURITIES	$ 23,987,357,745	$ 26,945,949,793	$ 29,072,741,164	$ 32,241,171,766	$ 33,620,781,581

Table 19
Summary of Investments, All Funds

Trust Account	Balance 9-1-86	Increase/ Decrease	Balance 8-31-87
City, County and District Bonds	$ 334,069,278	$ 33,616,000	$ 367,685,278
State Bonds	999,775	225	1,000,000
U.S. Government Securities	7,991,676,313	665,747,264	8,657,423,577
Notes and Other Evidence of Indebtedness	4,528,733,887	427,571,553	4,956,305,440
Corporate Obligations	7,660,475,522	1,715,302,467	9,375,777,989
Corporate Stock	6,629,838,390	808,771,943	7,438,610,333
Loans to Political Subdivisions	3,658,416	-263,787	3,394,629
Discount on Investments	-588,479,971	-15,199,772	-603,679,743
Premium on Investments	141,564,117	-20,254,264	121,309,853
TOTAL NET INVESTMENTS	$26,702,535,727	$3,615,291,629	$30,317,827,356

Table 20
Asset Distribution of Major Investment Funds
Year Ended August 31, 1987
(Amounts in Thousands)

	Teacher Retirement System Fund 960	State Employees Retirement Fund 955	Permanent School Fund 044	Permanent University Fund 045	Water Development Fund 351	Veterans Land Program	All Other Funds	Total All Funds
City, County and District Bonds	$ 10,000	$ 0	$ 0	$ 0	$343,520	$ 0	$ 14,165	$ 367,685
State Bonds	0	0	0	0	0	0	1,000	1,000
U.S. Government Securities	3,132,900	1,886,185	1,711,492	429,127	218,535	755,685	523,500	8,657,424
Notes and Other Evidence of Indebtedness	3,156,535	630,310	563,212	464,523	0	0	141,725	4,956,305
Corporate Obligations	4,768,823	1,004,593	2,313,196	1,155,541	0	0	133,625	9,375,778
Corporate Stock	4,272,215	777,716	1,514,505	874,170	0	0	4	7,438,610
Loans to Political Subdivisions	0	0	0	0	0	0	3,395	3,395
Discount on Investments	-333,837	-152,621	-32,605	-50,507	-2,716	-5,932	-25,462	-603,680
Premium on Investments	55,511	47,861	207	2,792	88	9,420	5,431	121,310
TOTAL FUND BALANCE	$15,062,147	$4,194,044	$6,070,007	$2,875,646	$559,427	$759,173	$797,383	$30,317,827

Bonded Indebtedness
[Tables 21-25]

The Texas Constitution authorizes the state to issue bonds to finance several specific programs.

Table 21 details three types of these bonds--General Obligation Bonds, Permanent University Fund Bonds and Higher Education Constitutional Bonds.

Bonded indebtedness from these three types of bonds totaled $2.9 billion on August 31, 1987. This is a 3.9 percent increase over the $2.8 billion in debt on these bonds at the close of fiscal 1986.

General Obligation Bonds

Seven categories of general obligation bonds, backed by the full faith and credit of the state, are authorized by the Constitution.

Veterans Land Bonds totaled $705 million in fiscal 1987--a 1.6 percent decrease from the $716.5 million in Veterans Land Bonds issued through August 31, 1986.

(Continued on page 31)

Table 21
STATEMENT OF PRINCIPAL BONDED INDEBTEDNESS
Year Ended August 31, 1987

	Outstanding 9-1-86	New Issues	Retired	Refunded	Outstanding 8-31-87	Increase/ Decrease
GENERAL OBLIGATION BONDS:						
Veterans Bonds[1]	$1,458,345,000	$ 0	$17,600,000	$ 0	$1,440,745,000	$ -17,600,000
Water Development Bonds	353,127,869	150,000,000	11,450,000	0	491,677,869	138,550,000
Park Development Bonds	32,500,000	0	1,250,000	0	31,250,000	-1,250,000
College Student Loan Bonds	115,705,000	0	8,790,000	0	106,915,000	-8,790,000
Farm and Ranch Loan Security Bonds	10,000,000	0	0	0	10,000,000	0
TOTAL GENERAL OBLIGATION BONDS	1,969,677,869	150,000,000	39,090,000	0	2,080,587,869	110,910,000
PERMANENT UNIVERSITY FUND BONDS:						
Texas A&M University	198,065,000	25,000,000	2,375,000	0	220,690,000	22,625,000
University of Texas	440,045,000	0	12,625,000	0	427,420,000	-12,625,000
TOTAL PERMANENT UNIVERSITY FUND BONDS	638,110,000	25,000,000	15,000,000	0	648,110,000	10,000,000
HIGHER EDUCATION CONSTITUTIONAL BONDS:[2]	229,520,000	57,115,000	18,390,000	48,055,000	220,190,000	-9,330,000
TOTAL ALL BONDS	$2,837,307,869	$232,115,000	$72,480,000	$48,055,000	$2,948,887,869	$111,580,000

[1]Includes both Veterans Land Bonds and Veterans Housing Bonds.

[2]The beginning balance reported for Higher Education Constitutional Bonds differs from the ending balance in the 1986 Annual Financial Report as the 1986 report did not include bonds which were issued at the end of the 1986 fiscal year.

Table 22
Summary of Net Revenue Available for General Obligation Debt Service, All Funds
Year Ended August 31, 1987

Receipt Type	Total Revenue	Revenue of Constitutional & Federal Funds	Balance Available for Debt Service
Tax Collections	$10,266,163,036	$ 1,785,407,888	$ 8,480,755,148
Business/Professional Fees	124,806,443	335,357	124,471,086
Noncommercial Permits & Fees	965,467,249	650,439,785	315,027,464
Violations, Fines & Penalties	73,442,966	21,844	73,421,122
State Service Fees	225,854,603	580,279	225,274,324
Sales, Rentals & Repayments	156,100,350	87,810,431	68,289,919
Donations & Grants	3,268,286	5,877	3,262,409
Transfers	5,217,315,379	5,217,315,379	0
Interagency Sales of Goods & Services	236,582,465	236,582,465	0
Investment Transactions	14,930,189,899	14,930,189,899	0
Federal Receipts	4,078,103,648	4,078,103,648	0
Interest/Dividends	2,712,502,704	1,023,810,727	1,688,691,977
Land Income	273,606,194	261,231,097	12,375,097
Other Receipts	1,267,921,648	395,955,177	871,966,471
Trust Receipts	7,162,755,969	7,162,755,969	0
TOTAL NET REVENUE AND INTERFUND TRANSFERS	$47,694,080,839[1]	$35,830,545,822	$11,863,535,017

[1]Excludes $73,719 of 401K direct deposit transfers for August 1987.

Table 23
General Obligation Bond Debt Service Requirements

Fiscal Year	Veterans Bonds[1]		Water Development Bonds		Park Development Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
1988	$ 56,490,000	$ 113,066,040	$ 16,785,000	$ 35,537,095	$ 1,450,000	$ 2,440,375
1989	64,225,000	108,099,348	17,525,000	30,462,103	500,000	2,379,875
1990	65,720,000	102,735,265	18,145,000	29,449,328	500,000	2,333,625
1991	74,460,000	96,853,435	19,380,000	28,359,245	1,000,000	2,264,250
1992	71,535,000	90,788,649	22,820,000	27,103,405	1,000,000	2,171,750
1993	72,790,000	85,045,017	23,920,000	25,610,608	1,500,000	2,056,125
1994	75,010,000	79,111,821	25,520,000	24,074,303	1,500,000	1,917,375
1995	75,155,000	73,130,043	27,195,000	22,422,358	1,500,000	1,780,500
1996	73,335,000	67,279,365	29,170,000	20,676,895	2,000,000	1,639,000
1997	78,280,000	61,269,180	32,190,000	18,728,165	2,000,000	1,489,000
1998	80,075,000	54,992,251	37,200,000	16,471,175	3,000,000	1,296,750
1999	80,090,000	48,711,784	12,980,624	34,133,152	3,000,000	1,064,250
2000	83,185,000	42,258,267	18,237,245	19,976,530	3,500,000	808,000
2001	86,205,000	35,660,070	25,405,000	12,824,575	4,000,000	508,000
2002	87,685,000	29,045,405	27,100,000	11,077,513	4,800,000	174,000
2003	85,160,000	22,476,350	29,045,000	9,213,563		
2004	48,045,000	16,993,300	31,045,000	7,215,800		
2005	7,800,000	14,825,000	33,015,000	5,169,075		
2006	8,600,000	14,169,000	21,800,000	2,992,500		
2007	9,400,000	13,437,250	23,200,000	1,542,800		
2008	10,000,000	12,637,000				
2009	11,000,000	11,770,750				
2010	12,000,000	10,822,000				
2011	13,000,000	9,790,750				
2012	15,000,000	8,632,000				
2013	16,000,000	7,345,500				
2014	17,500,000	5,955,250				
2015	19,000,000	4,440,500				
2016	21,000,000	2,780,500				
2017	23,000,000	954,500				
TOTALS	$1,440,745,000	$1,245,075,590	$491,677,869	$383,040,188	$31,250,000	$24,322,875

[1]Includes both Veterans' Land Bonds and Veteran's Housing Bonds.

General Obligation Bonds
Continued

Veterans Land Bond proceeds are used to buy land which is resold to qualified Texas veterans under the Veterans Land Program.

Veterans Housing Assistance Bonds amounted to $735.7 million in fiscal 1987. Money raised from the sale of these bonds is loaned to qualified Texas veterans to purchase homes.

Farm and Ranch Loan Bonds can be used to provide loans of up to $250,000 to qualified Texas residents for the purchase of farms or ranches. None of these bonds were issued during fiscal 1987.

Water Development Bonds added up to $491.7 million on August 31, 1987. These bonds provide capital for loans to local governments for water and sewer projects and capital for the state's share in reservoirs.

Park Development Bond debt totaled $31.3 million in fiscal 1987. These bonds are sold to finance the purchase and improvement of

Table 23 (Continued)
General Obligation Bond Debt Service Requirements

College Student Loan Bonds		Farms & Ranch Loan Security Bonds		Total General	Fiscal
Principal	Interest	Principal	Interest	Obligation Bonds	Year
$ 9,075,000	$ 5,472,882	$ 0	$ 900,000	$ 241,216,392	1988
9,455,000	4,964,025	0	900,000	238,510,351	1989
9,765,000	4,438,468	0	900,000	233,986,686	1990
10,135,000	3,908,067	0	900,000	237,259,997	1991
10,500,000	3,356,705	0	900,000	230,175,509	1992
10,895,000	2,797,693	0	900,000	225,514,443	1993
11,360,000	2,214,647	0	900,000	221,608,146	1994
11,800,000	1,635,155	0	900,000	215,518,056	1995
8,460,000	1,046,103	10,000,000	900,000	214,056,363	1996
8,150,000	631,800		450,000	202,738,145	1997
7,320,000	283,792			200,638,968	1998
				179,979,810	1999
				167,965,042	2000
				164,602,645	2001
				159,881,918	2002
				145,894,913	2003
				103,299,100	2004
				60,809,075	2005
				47,561,500	2006
				47,580,050	2007
				22,637,000	2008
				22,770,750	2009
				22,822,000	2010
				22,790,750	2011
				23,632,000	2012
				23,345,500	2013
				23,455,250	2014
				23,440,500	2015
				23,780,500	2016
				23,954,500	2017
$106,915,000	$30,749,337	$10,000,000	$7,650,000	$3,771,425,859	TOTALS

state park sites. Park entrance fees and investment income are applied to the bond debt and interest.

College Student Loan Bonds are sold to raise funds for loans to eligible Texas college students. This bond category had $106.9 million outstanding at the close of fiscal 1987.

Farm and Ranch Security Bonds are the final type of general obligation bonds. Totaling $10 million in fiscal 1987, proceeds from these bonds guarantee loans for farm and ranch land, mortgages and deeds of trust. They also advance to borrowers a percentage of the principal and interest due on farm and ranch loans.

In programs that involve loans, repayment of those loans goes toward retiring the bonds with interest. In programs involving land sales, proceeds from those sales retire the bonded indebtedness.

If revenue from the various bond programs doesn't cover principal and interest payments, the Legislature must appropriate the amount needed to meet the outstanding debt requirement. Appropriations for this purpose would be made from nondedicated state revenue.

The Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of August 31, 1987, the following bonds had been authorized but not issued:

Veterans Land Bonds	$ 200,000,000
Veterans Housing Bonds	250,000,000
Farm and Ranch Loan Bonds	500,000,000
Water Development Bonds	868,670,000
College Student Loan Bonds	79,500,000
Park Development Bonds	29,250,000
Farm and Ranch Loan Security Bonds	0
TOTAL	$1,927,420,000

Permanent University Fund Bonds

Permanent University Fund Bonds are sold to build, equip or buy buildings or to finance other permanent improvements for the University of Texas and Texas A&M University systems.

Debt service payments on these bonds are made from income on the Permanent University Fund. Permanent University Fund debt may not total more than 30 percent of the value of the Permanent University Fund--excluding real estate.

Higher Education Constitutional Bonds

Higher Education Constitutional Bonds are sold for purposes similar to PUF Bonds. They are used to build, equip or buy buildings or to finance other improvements to public universities outside the University of Texas and Texas A&M systems.

Debt service payments on these bonds are made from appropriations of general revenue.

Table 24
Permanent University Fund Bond Debt Service Requirements

Fiscal Year	A&M System		UT System		Total Permanent University Fund Bonds
	Principal	Interest	Principal	Interest	
1988	$ 1,510,000	$ 16,146,329	$ 10,320,000	$ 32,900,960	$ 60,877,289
1989	1,130,000	16,056,260	8,895,000	32,255,960	58,337,220
1990	2,365,000	15,995,240	7,420,000	31,659,995	57,440,235
1991	6,015,000	15,832,810	7,920,000	31,140,595	60,908,405
1992	31,725,000	15,462,036	8,475,000	30,562,435	86,224,471
1993	8,490,000	12,938,649	9,095,000	29,918,335	60,441,984
1994	9,320,000	12,379,079	9,775,000	29,213,473	60,687,552
1995	10,220,000	11,747,551	10,520,000	28,441,248	60,928,799
1996	12,200,000	11,035,396	11,330,000	27,594,388	62,159,784
1997	13,270,000	10,169,570	12,220,000	26,665,328	62,324,898
1998	14,440,000	9,216,215	13,215,000	25,638,848	62,510,063
1999	15,710,000	8,159,910	14,315,000	24,508,965	62,693,875
2000	18,085,000	6,986,937	15,515,000	23,263,560	63,850,497
2001	17,145,000	5,630,300	24,815,000	21,898,240	69,488,540
2002	14,600,000	4,353,550	33,395,000	19,689,705	72,038,255
2003	12,885,000	3,112,550	36,325,000	16,717,550	69,040,100
2004	15,255,000	2,210,600	44,925,000	13,448,300	75,838,900
2005	16,325,000	1,142,750	48,945,000	9,405,050	75,817,800
2006			0	5,000,000	5,000,000
2007			0	5,000,000	5,000,000
2008			0	5,000,000	5,000,000
2009			0	5,000,000	5,000,000
2010			0	5,000,000	5,000,000
2011			0	5,000,000	5,000,000
2012			0	5,000,000	5,000,000
2013			0	5,000,000	5,000,000
2014			0	5,000,000	5,000,000
2015			100,000,000	1,604,167	101,604,167
TOTALS	$220,690,000	$178,575,732	$427,420,000	$501,527,102	$1,328,212,834

Table 25
Higher Education Constitutional Bond Debt Service Requirements

Fiscal Year	Principal	Interest	Total Higher Education Constitutional Bonds
1988	$ 21,070,000	$ 14,293,119	$ 35,363,119
1989	23,440,000	12,939,660	36,379,660
1990	25,065,000	11,339,859	36,404,859
1991	26,835,000	9,605,958	36,440,958
1992	28,290,000	7,740,413	36,030,413
1993	29,590,000	5,755,533	35,345,533
1994	31,740,000	3,630,467	35,370,467
1995	34,160,000	1,202,028	35,362,028
TOTALS	$220,190,000	$66,507,037	$286,697,037

Securities Deposited in Trust
[Table 26]

Texas had $1.6 billion worth of securities held in trust on August 31, 1987. There are several types of trust accounts held by the Treasurer.

Depository Accounts hold securities used as collateral by the State Treasurer against state money deposited in state-approved depository banks. The State Depository Board approves securities in the Depository Accounts. Board members are the State Treasurer, the Comptroller of Public Accounts, the State Banking Commissioner and a citizen appointed by the Governor.

The balances of Depository Accounts, plus the amount of FDIC coverage on treasury deposits, meet the 100 percent collateral requirement for treasury deposits.

Tax Bond Accounts hold securities deposited by taxpayers to insure payment of taxes. The balance in these accounts is only a portion of the total amount pledged against tax payments, since other securities, such as cash and letters of credit, are acceptable as tax bonds.

Public Protection Accounts hold securities pledged as bonds against possible loss or damage caused by one of the bonded parties.

Escheat Accounts represent securities held in trust for unidentified heirs and beneficiaries of estates. In most cases, money in these accounts will revert to the state if not claimed within seven years.

Foundation School Program
[Table 27]

The Foundation School Program finances public education in Texas and determines the amount of funding available for other state programs.

The Foundation School Program has the first claim against tax money in Texas. The state's share of public education financing (and local school districts' minimum contributions) is determined by statutory formulas. What's left over after public schools are funded is the amount available for other state programs.

The Foundation School Fund Budget Committee certifies a biennial estimate of the Foundation School Program's funding needs before every regular legislative session. The Governor, the Lieutenant Governor and the Comptroller of Public Accounts sit on the budget committee. The committee meets periodically to modify or revise estimates if there are legislative or administrative changes affecting costs.

Two major state funds support the Foundation School Program.

Continued on page 36

Table 26
Securities Deposited in Trust

Trust Account		Balance 9-1-86	Increase/ Decrease	Balance 8-31-87
DEPOSITORY ACCOUNTS				
910	Time Depository Bonds Guaranty Account	$2,508,669,000	$-1,401,764,000	$1,106 905,000
912	Higher Education Depository Guaranty Account	58,001,000	-8,005,000	49,996,000
915	Agencies and Boards Depository Guaranty Trust Account	250,000	0	250,000
925	Texas Employment Commission Depository Bonds Guaranty Account	64,450,000	-2,530,000	61,920,000
TAX BOND ACCOUNTS				
904	Motor Fuels Distributors Bond Guaranty Account	31,000	0	31,000
905	Foreign Corporation Franchise Guaranty Account	0	13,558	13,558
956	Cigar and Tobacco Products Bond Account	186,140	7,831	193,971
962	Sales Tax Guaranty Account	4,169	4,075	8,244
PUBLIC PROTECTION ACCOUNTS				
476	Radiation and Perpetual Care Fund	125,027,241	11,440,206	136,467,447
908	Bond and Investment Companies Account	215,000	0	215,000
916	Building and Loan Associations Companies Account	0	100,000	100,000
917	Fiduciary Companies Account	1,050,000	-1,050,000	0
919	Mutual Assessment Insurance Companies Account	148,600	-148,600	0
921	Life, Health, Accident and Casualty Insurance Companies Account	245,760,576	9,398,316	255,158,892
924	County Mutual Insurance Companies Account	1,188,500	-1,188,500	0
933	Insurance Recording Agent Account	475,000	-475,000	0
940	Motor Vehicle Proof of Responsibility Account	107,000	165,000	272,000
949	Automobile Service Club Account	154,788	-29,788	125,000
982	Health Maintenance Organization Account	5,567,405	-5,567,405	0
991	Texas Deferred Compensation Guaranty Account	1,715,000	1,720,000	3,435,000
ESCHEAT ACCOUNTS				
551	Unclaimed Money Fund Account	383,291	59,317	442,608
TOTAL SECURITIES		$3,013,383,710	$-1,397,849,990	$1,615,533,720

Table 27
Foundation School Program Budget Estimate and State Expenditures
Year Ended August 31, 1987

Program	October 1986 Cost Estimate
Regular	$4,425,454,198
Vocational Education	245,924,991
Special Education	494,072,013
Transportation	189,951,461
Bilingual Education	34,544,960
Compensatory Education	340,510,993
Educational Improvement	418,803,980
Gifted and Talented	7,040,030
TOTAL FOUNDATION SCHOOL PROGRAM Cost, estimated	6,156,302,626
Less: Total Local Funds, estimated	1,928,478,904
STATE SHARE FOUNDATION SCHOOL PROGRAM	4,227,823,722
NON-FSP AID	
Experienced Teacher Allotment	37,220,040
Equalization Aid	491,888,042
Equalization Transition Fund	17,500,000
LEP Summer School Program	5,899,300
Pre-Kindergarten for the Disadvantaged	37,550,985
Other Non-FSP Aid	49,338,892
Total Non-FSP Aid	639,397,259
Prior Year's Adjustment	-3,000,000
Balance to be Paid from State Funds	4,864,220,981
STATE EXPENDITURES	
Available School Fund	768,897,379
Foundation School Fund	4,038,543,746
TOTAL STATE EXPENDITURES 1987 FOUNDATION SCHOOL PROGRAM	$4,807,441,125

Foundation School Program
Continued

The Foundation School Fund 193 provides the bulk of state funding for Texas public schools. The General Revenue Fund is the principal source of income for the Foundation School Fund. School districts get Foundation School Fund money based on each local district's property wealth and ability to finance education locally.

The Available School Fund 002 receives investment income from the Permanent School Fund 044 and a portion of motor fuels taxes from the General Revenue Fund. Money from the Available School Fund is allocated based on the number of students attending school in a district.

Table 27 shows what the Foundation School Fund Budget Committee estimated fiscal 1987 costs would be as of October 1986. Actual outlays from the Available School Fund and Foundation School Fund also are shown for fiscal 1987.

Notes to the Annual Financial Report

NOTE 1 - *Annual Financial Report Presentation*

The Annual Financial Report for the state includes all funds in the State Treasury and has been prepared primarily from accounts maintained by the State Comptroller. Additional data have been derived from reports prescribed by the Comptroller and prepared by various agencies of the state.

NOTE 2 - *Summary of Significant Accounting Policies*

a. Basis of Accounting

The funds of the State Treasury are accounted for on a cash basis as required by law. Revenue is reported in the period when the related cash collection is made, and expenses are reported in the period when the disbursements are made.

b. Pooled Cash and Cash Equivalents

Amounts reflected in this report as cash in the State Treasury are pooled and reinvested by the Treasury in various financial instruments. Each fund is credited with a proportional amount of depository interest. Depository interest earnings are transferred to each fund on a periodic basis. The following is a reconciliation of total cash in the State Treasury Account per this report to the actual balance of the pool of cash reinvested by the State Treasury.

Cash in State Treasury (Comptroller Records)	$1,676,716,403
Less: Balance of Fund 938 (In Federal Treasury)	806,000
Other Items in Transit	3,021,651
Plus: Outstanding Warrants	228,886,453
Pooled Cash and Cash Equivalents (State Treasurer Records)	$1,901,775,205

The following is a breakdown of the pooled cash and cash equivalent investments in financial institutions by type of instrument.

Time Deposits	$ 831,536,250
Non-interest-bearing demand accounts and NOW Accounts	168,123,304
Securities Repurchase Agreements	565,800,000
U.S. Treasury bills at amortized cost	330,442,531
Accrued interest	3,738,474
Cashier's Cash (cash and checks in transit)	1,134,646
Investment in Texas State Trust Company	1,000,000
Total Pooled Cash and Cash Equivalents	$1,901,775,205

c. Interfund Borrowing

The Comptroller is authorized by law, with the approval of the State Treasurer, to borrow money from statutory funds to cover General Revenue Fund shortfalls.

These transfers to the General Revenue Fund are temporary and are returned to the lending fund as soon as practicable. The Comptroller preserves the fund equity and the State Treasurer allocates the depository interest as if the transfers had not been made.

On August 31, 1987, all short-term borrowings of the General Revenue Fund had been returned to the lending statutory funds, and no liability existed.

d. Investments

Various agencies of the state are authorized by law to invest and reinvest the balances of certain funds in the State Treasury. Unlike the cash pool investments of the State Treasury in Note 2b, these agency investments are purchased directly from individual fund resources and thus reduce the cash balance of the related funds. The investments are maintained as an asset of the fund from which they are purchased. The State Treasury is the custodian of the investment paper.

Investments are recorded at par. Discounts and premiums are recorded in separate contra accounts which are amortized over the life of the investment

e. Bonded Indebtedness

Outstanding bonded indebtedness is maintained as a long-term liability account in the statewide accounting system. This includes the constitutionally authorized general obligation bonds, higher education constitutional appropriation bonds and Permanent University Fund Bonds which are accounted for in special funds

in the State Treasury. These bonds are recorded at par and are reduced by the amount of each payment of principal.

All bond funds were self-sufficient for debt service requirements during the fiscal year reporting period.

NOTE 3 - *Pension Plan*

The state has three separately defined pension plans which cover substantially all of its employees. They are the Employees Retirement System, the Teacher Retirement System and the Judicial Retirement System.

The Employees Retirement System and the Teacher Retirement System are maintained on an actuarially sound basis. The Judicial Retirement System is maintained on a pay-as-you-go basis. However, the 69th Legislature restructured the Judicial Retirement System into two plans effective September 1, 1985. These are referred to as JRS Plan 1 and JRS Plan 2.

JRS Plan 1 continues to operate on a pay-as-you-go basis for judges becoming members prior to September 1, 1985. Based on a 7.5 percent assumed investment rate, the unfunded actuarial liability of JRS Plan 1 on August 31, 1985, was estimated to be $220.6 million.

JRS Plan 2 operates on an advance funded basis and is applicable to judges who become members after September 1, 1985. The state contribution for JRS Plan 2 will be actuarially determined so that it will finance the plan's normal cost. It is estimated that the normal cost contribution rate for JRS Plan 2 will be 17 percent of payroll, six percent by each judge and 11 percent by the state. The cost of financing JRS Plan 2 for the 1988-89 biennium will be $1,304,000, which is 11 percent of the Plan 2 projected payroll.

The unfunded actuarial liability for the state's retirement programs on August 31, 1987, is as follows:

Retirement System	Unfunded Actuarial Liability	Date of Last Actuarial Valuation	Number of Years to Fund Liability
Employees Retirement			
Regular Employees	$ 400,309,105	8-31-86	18.1
Law Enforcement and			
Custodial Officers	5,297,078	8-31-86	29
Teacher Retirement	5,365,149,730	8-31-86	26
TOTAL	$5,770,755,913		

The above information was obtained from actuarial valuation reports and other correspondence provided by the responsible state agencies.